



**Submission:**

**Evoenergy Gas Network 2021 Draft Plan**

**April 2020**

# About ACTCOSS

ACTCOSS acknowledges Canberra has been built on the land of the Ngunnawal people. We pay respects to their Elders and recognise the strength and resilience of Aboriginal and/or Torres Strait Islander peoples. We celebrate Aboriginal and/or Torres Strait Islander cultures and ongoing contributions to the ACT community.

The ACT Council of Social Service Inc. (ACTCOSS) advocates for social justice in the ACT and represents not-for-profit community organisations.

ACTCOSS is a member of the nationwide COSS Network, made up of each of the state and territory Councils and the national body, the Australian Council of Social Service (ACOSS).

ACTCOSS's vision is for Canberra to be a just, safe and sustainable community in which everyone has the opportunity for self-determination and a fair share of resources and services.

The membership of the Council includes the majority of community-based service providers in the social welfare area, a range of community associations and networks, self-help and consumer groups and interested individuals.

ACTCOSS advises that this document may be publicly distributed, including by placing a copy on our website.

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## Acronyms

|         |   |
|---------|---|
| ACTCOSS | ACT Council of Social Service Inc.                      |
| AEMC    | Australian Energy Market Commission                     |
| AER     | Australian Energy Regulator                             |
| ATA     | Alternative Technology Association (now Renew)          |
| CESS    | Capital Expenditure Sharing Scheme                      |
| ECA     | Energy Consumers Australia                              |
| ECRC    | (Evoenergy's) Energy Consumer Reference Council         |
| GN21    | Evoenergy gas network 2021-26 access arrangement review |

## Introduction

The ACT Council of Social Service (ACTCOSS) welcomes the opportunity to provide feedback on Evoenergy's Gas Network 2021 Draft Plan. We acknowledge the efforts that Evoenergy has undertaken to engage with consumers and consumer advocates in preparing this draft plan ahead of its initial proposal to the Australian Energy Regulator (AER).

ACTCOSS has received funding from Evoenergy to support its engagement with vulnerable energy consumers in the gas network 2021-26 access arrangement review process for the ACT and Queanbeyan-Palerang Region (GN21).

This submission builds on and complements the following interactions with Evoenergy on GN21 to date:

- ACTCOSS's GN21 Energy Consumer Advocacy Workshop on 27 August 2019 and documenting workshop outcomes<sup>1</sup>
- Presenting and observing at Evoenergy's 2019 Citizens' Jury (19-20 October, 2-3 November 2020)
- Participating in Evoenergy's GN21 Draft Plan Deep Dive discussions with local consumers and consumer representatives (Part A), and with consumer advocates (Part B – 18 March 2020)
- Meetings of Evoenergy's Energy Consumer Reference Council (ECRC)
- Meetings with Evoenergy staff.

ACTCOSS has an established role as an energy consumer advocate in the ACT. Since 2016, we have led the Energised Consumers Project which is funded by Energy Consumers Australia (ECA) and the ACT Government. This submission is informed by our work on this project, including engagement with ACT energy consumers and community organisations. This project has facilitated valuable opportunities to connect and collaborate with advocates locally and nationally, including through the:

- ACT Energy Consumer Policy Consortium (ACTCOSS, Better Renting, Care Financial Counselling Service, Conservation Council ACT Region, and Small Business Taskforce of the Canberra Business Chamber)
- National Consumer Roundtable on Energy.

The primary focus of our engagement with GN21 is to represent the interests of low-income and other at-risk energy consumers in the ACT. In line with the National Gas Objective, we are concerned about the long-term interests of consumers – in particular, vulnerable consumers – of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas.

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<sup>1</sup> ACTCOSS, *GN21 energy consumer advocacy workshop outcomes report: building capacity for people on low incomes, experiencing disadvantage, or at risk or hardship to actively engage in the Evoenergy Gas Network 2021-26 Access Arrangement Review*, ACTCOSS, Canberra, October 2019.

## Summary of ACTCOSS information requests

| Issue   | Questions/Request  |
|---|--|
| No expansion of gas network into new suburbs in the ACT | Will developers want to install gas connections to new suburbs in the ACT now that it is not mandated?                                       |
| Depreciation  | A deep dive to test the assumption that Evoenergy will need to accelerate depreciation – is this in the long-term interest of gas consumers? |
| Bill impacts  | Why is there only a minimal impact on residential customers' bills under Evoenergy's proposed approach?                                      |
| Capital Expenditure Sharing Scheme (CESS)               | Do consumers see value in adopting a CESS under GN21 given the relatively low level of capital expenditure?                                  |
| Tariffs   | Further analysis of equity and sustainability impacts of declining usage rates.  |
| Capital expenditure                                     | Further details of expenditure on market expansion and meter renewal.  |
| Operating costs   | How does Evoenergy's gas rewards marketing program support the long-term interests of gas consumers, especially low-income households?       |
| Customer number and volume forecasts                    | How does the GN21 Draft Plan fit within the legislated target of a 50-60% reduction in greenhouse gas emissions (from 1990 levels) by 2025?  |

# The future of gas: the next 5-10 years

We are seeking your feedback on the assumptions we have made on how ACT Government policy will impact the use of gas in the ACT and surrounds. What are your expectations of how the use of gas will change in the next 5 – 10 years?

## Key assumptions in the GN21 Draft Plan

The GN21 is based on three key assumptions as outlined below,<sup>2</sup> with responses from ACTCOSS.

### Assumption# 1: No expansion of gas network into new ACT suburbs

Reflecting the ACT Government's strategy to remove the mandating of reticulated gas in new suburbs, the gas network will not be expanded into new suburbs in the ACT

We broadly agree with this assumption, though it would be useful if Evoenergy could provide further information to support it in its proposal to the AER.

Research by the Alternative Technology Association (ATA, now Renew) concluded that due to improvements in common household electrical appliances 'it is not cost effective to connect a new home to mains gas' and that doing so would 'lock new home buyers into significantly higher energy costs for the medium to longer term'.<sup>3,4</sup>

Renew argue that continued expansion of reticulated gas to most greenfield developments fails the National Gas Objective on at least two important counts:

- The infrastructure delivered could not, by any credible measure, be considered 'efficient investment'; and, therefore
- Such programs are clearly no longer in the 'long term interests of consumers', with particular reference to price.

The ACT Government's amendment of planning regulations to remove the mandating of reticulated gas in new suburbs is explicitly intended to 'encourage

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2 Evoenergy, *Evoenergy gas network 2021 draft plan*, Evoenergy gas network 2021-26 access arrangement review, Evoenergy, Canberra, February 2020, p. 20, viewed at, <<https://www.evoenergy.com.au/gas-network-draft-plan>>.

3 Alternative Technology Association, *Are we still cooking with gas?* Report for the Consumer Advocacy Panel, ATA, Melbourne, 2014, p. 5, viewed at, <[https://renew.org.au/wp-content/projects/CAP\\_Gas\\_Research\\_Final\\_Report\\_251114\\_v2.0.pdf](https://renew.org.au/wp-content/projects/CAP_Gas_Research_Final_Report_251114_v2.0.pdf)>.

4 ATA, *Household fuel choice in the National Energy Market*, Final Report, ATA, Melbourne, 2018, p. 6, viewed at, <[https://renew.org.au/wp-content/uploads/2018/08/Household\\_fuel\\_choice\\_in\\_the\\_NEM\\_Revised\\_June\\_2018.pdf](https://renew.org.au/wp-content/uploads/2018/08/Household_fuel_choice_in_the_NEM_Revised_June_2018.pdf)>.

a shift from gas to electricity'.<sup>5</sup> As noted in our submission to the ACT Government's *ACT Sustainable Energy Policy 2020-25 Discussion Paper*:

Given the technical and financial uncertainty regarding using fuels other than natural gas in gas infrastructure, ACTCOSS supports ceasing expansion of gas into new suburbs during 2020-25. This is the least risk, least cost approach.<sup>6</sup>

Similarly, the Citizens' Jury recommended 'that Evoenergy suspend expanding the gas network into new developments until low emissions sources of gas become available'.<sup>7</sup>

Our understanding is that while the mandate has been removed, there is not an effective ban on developers connecting gas to new suburbs. The ACT Government has flagged that:

As a stepping stone to an eventual complete phase out of natural gas, the Government could also regulate to prevent gas connections to residences in new developments, or to all buildings (commercial and residential) in the development. This would require buildings to be all electric. However, a risk of this approach is that it would mean there is no pipeline infrastructure for the delivery of possible gas alternatives in the future, such as hydrogen.<sup>8</sup>

The ACT Government has also indicated that the removal of the mandate will mean that:

developers [will be] required to fund the installation of gas infrastructure up-front [meaning that] gas infrastructure would only be installed if customers saw value in the service, and at a price customers are willing to pay.

We assume that this cost would present a significant disincentive for developers and their customers.

In response to the supplementary recommendations of the 2019 Citizens' Jury, Evoenergy noted that:

... over the course of the regulatory period, if there is a preference or requirement from the market (for example, a request from developers, builders, home buyers) for gas connections, we would examine any risks associated with investment and make a decision in the best interests of the consumer.<sup>9</sup>

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5 ACT Government, *ACT Climate Change Strategy 2019-25*, Environment, Planning and Sustainable Development Directorate, Canberra, ACT 2019, p. 37, viewed at, <<https://www.environment.act.gov.au/cc/act-climate-change-strategy>>.

6 ACTCOSS, *Submission: Response to the ACT Sustainable Energy Policy 2020-25 Discussion Paper*, ACTCOSS, Canberra, November 2019, p. 25, viewed at, <<https://www.actcoss.org.au/publications/advocacy-publications/submission-response-act-sustainable-energy-policy-2020-25>>.

7 Evoenergy, *Report from the Evoenergy Citizens' Jury*, Evoenergy, Canberra, 3 November 2019, Supplementary recommendation 2, viewed at, <<https://www.evoenergy.com.au/about-us/about-our-network/gas-five-year-plan/gas-network-consultation-program>>.

8 ACT Government, *ACT Sustainable Energy Policy 2020-25 Discussion Paper*, Environment, Planning and Sustainable Development Directorate, Canberra, 2019, p.

9 Evoenergy, *Evoenergy 2019 Citizens' jury: Evoenergy gas network 2021-26 review response to recommendations*, Evoenergy, Canberra, 2020, p. 15, viewed at,



To test the validity of this assumption it would be useful for Evoenergy to address the following question: How likely is it that developers would continue to want to install gas connections to new suburbs in the ACT now that it is not mandated?

### **Assumption #2: Reduced gas usage per customer and increased gas disconnection rate**

That following campaigning by the ACT Government for a transition away from gas, we will see a significant reduction in average gas usage per customer and an increase in gas disconnection rates beyond historical trends

We agree with this assumption based on the significant commitments the ACT Government has made through the *ACT Climate Change Strategy 2019-25*. The GN21 Draft Plan identifies three ACT Government actions to reduce emissions from gas.<sup>10</sup> As shown in Table 1 below, there are 10 measures in the *ACT Climate Change Strategy 2019-25* aimed at transitioning from gas to electricity. We recommend that Evoenergy use this more extensive list to demonstrate the ACT Government's measures to transition away from gas within the GN21 period.<sup>11</sup>

We are concerned that Evoenergy's customer growth and volume forecasts may be at odds with the achievement of the legislated interim target of a 50-60% reduction in greenhouse gas emissions (from 1990 levels) by 2025. Our concerns are outlined under 'Customer Number and Volume Forecasts' below.

### **Assumption #3: Evoenergy will need to accelerate depreciation**

That we will need to accelerate depreciation for new capital expenditure by adjusting the asset lives of new investment.

Further information is needed to assist us to determine the validity of this assumption. ACTCOSS recommends that Evoenergy provides an opportunity for stakeholders to explore this issue in more detail.

A detailed response is provided in the section on 'Depreciation' below.

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<https://www.evoenergy.com.au/about-us/about-our-network/gas-five-year-plan/gas-network-consultation-program>.

<sup>10</sup> Evoenergy, *Evoenergy gas network 2021 draft plan*, op. cit., Table 3.1, p. 17.

<sup>11</sup> *ibid*, p. 17.

**Table 1 Actions to transition from gas to electric, ACT Climate Change Strategy 2019-25**

| <b>No.</b> | <b>Goal</b>                                   | <b>Action</b>  | <b>Timing</b> |
|------------|---|--|---------------|
| 4.03       | Reduce emissions from gas                     | Amend planning regulations to remove the mandating of reticulated gas in new suburbs.  | By 2020       |
| 4.04       | Reduce emissions from gas                     | Conduct a campaign to support the transition from gas by highlighting electric options and savings opportunities to the ACT community.   | From 2020     |
| 4.05       | Reduce emissions from gas                     | Develop a plan for achieving zero emissions from gas use by 2045, including setting timeframes with appropriate transition periods for phasing out new and existing gas connections.               | By 2024       |
| 4.09       | Climate-wise, zero emissions public housing   | Continue to upgrade to efficient-electric appliances in existing public housing properties where technically feasible and assess the cost and benefits of shifting to all-electric public housing. | From 2019     |
| 4.10       | Climate-wise, zero emissions public housing   | Ensure all newly constructed public housing properties are all-electric (fitted with electric appliances) from 2019.   | From 2019     |
| 4.12       | Climate-wise, zero emissions low income homes | Trial facilitating access to interest free loans or other innovative finance for gas to electric upgrades and deep retrofits of low income homes.  | By 2022       |
| 4.18       | Climate-wise, zero emissions buildings        | Trial incentives and other measures to encourage all-electric, high efficiency apartment and commercial buildings.   | By 2024       |
| 4.19       | Climate-wise, zero emissions buildings        | Expand the Energy Efficiency Improvement Scheme to increase support for low income priority households and further encourage a shift from gas to high efficiency electric appliances.              | From 2020     |
| 5.13       | Zero Emissions Government                     | Ensure all newly built or newly leased Government buildings and facilities are climate-wise and all-electric (where fit for purpose).  | From 2020     |
| 5.14       | Zero Emissions Government                     | Replace all space and water heating systems in Government facilities with electric systems at the end of their economic lives (where fit for purpose).   | From 2020     |

## GN21 Draft Plan Views and Priorities

Do the themes – of environmental sustainability, research into options and costs, transition impacts, affordability and tariffs, support for vulnerable customers, and communication and ongoing involvement – reflect your views and priorities as we plan for the 2021–26 access arrangement period and beyond?

‘It will be important to ensure there is a just transition to the 2045 net zero emissions target to ensure that gas consumers on low incomes or at risk of hardship do not bear a higher proportion of costs in terms of either staying on or moving off gas. Ideally, these households will be ‘winners’, and in a better position than at present as a result of the decisions that are made’.  
Response to Evoenergy online survey.<sup>12</sup>

We commend Evoenergy on incorporating the views and priorities of consumers into the GN21 Draft Plan. The issues raised by consumers in relation to GN21 reflect much of what ACTCOSS has heard from the community in the development of the *ACT Climate Change Strategy 2019-25* and the *ACT Sustainable Energy Policy 2020-25*. The GN21 Draft Plan outlines what consumers want and how Evoenergy is responding under the following themes (see also Table 2 below):

- Environmental sustainability
- Research into options and costs
- Transition impacts
- Affordability and tariffs
- Support for vulnerable customers
- Communication and ongoing involvement of consumers.

Evoenergy’s consumer engagement identified strong community support for a just transition to zero net greenhouse gas emissions in the ACT by 2045 implemented in a way that supports vulnerable consumers. We welcome Evoenergy’s responses to supporting vulnerable consumers as part of its commitment to ‘work with stakeholders to understand and consider the needs of vulnerable customers and what we can do to help as we develop our transition roadmap’.<sup>13</sup>

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<sup>12</sup> Evoenergy, *Evoenergy gas network 2021 draft plan*, op. cit., p. 32.

<sup>13</sup> *ibid*, p. 23.

**Table 2 How Evoenergy are responding to what they heard from consumers<sup>14</sup>**

| <b>What we heard</b>  | <b>How we are responding to what we heard</b>   |
|---|---|
| <p><b>Environmental sustainability</b><br/>Supporting environmental sustainability is a key driver for many consumers. This includes some support for halting the expansion of the gas network in new ACT suburbs.</p>  | <p>In the short-term, we are responding to consumer feedback on environmental sustainability by assuming that the gas network will not be extended into new ACT suburbs while we develop our transition roadmap for achieving net zero emissions by 2045.</p> <p>We have also assumed that average gas usage per customer will gradually decline, reflecting consumer sentiment and the expected response to ACT Government policy.</p> <p>Over the longer-term, our roadmap will set out a pathway for achieving net zero greenhouse gas emissions consistent with the ACT Government’s legislated target.</p> |
| <p><b>Research into options and costs</b><br/>Consumers want to gain a better understanding of the costs associated with various future energy options and how to transition to them.<br/>Consumers want us to undertake research and invest in understanding what the future energy options are.</p> | <p>We will continue to investigate the options and their costs as we develop our roadmap to 2045, and share what we find with stakeholders.</p> <p>In the meantime, we have focussed in this draft plan on minimising our costs, and we will continue initiatives, such as our Hydrogen Test Facility in Fyshwick.</p>  |
| <p><b>Transition impacts</b><br/>Consumers are concerned about impacts that a transition away from natural gas would have on their appliances and costs that would be incurred in replacing or upgrading these appliances. They want continuing reliable services during the transition.</p>          | <p>In the short-term, our draft plan reflects our commitment to investing only what we need to maintain the safety and reliability of gas supply as we develop a transition roadmap. Based on consumer feedback, an important part of our roadmap will involve working with stakeholders to understand and fully consider transition impacts.</p>   |
| <p><b>Affordability and tariffs</b><br/>Consumers are concerned about affordability and are seeking reduced network charges. These views were often coupled with feedback that consumers seek price stability and certainty related to their gas supply.</p>  | <p>In the short-term, we have focussed on minimising costs so that our draft plan delivers stable prices across 2021-26 access arrangement period.</p> <p>Over the longer-term, as we develop our roadmap, the costs of achieving the net zero emissions target will be a key consideration in determining the future pathway.</p>  |

<sup>14</sup> Evoenergy, *Evoenergy gas network 2021 draft plan*, op. cit., Table 4.1, p. 23.

| What we heard   | How we are responding to what we heard   |
|---|--|
| <p><b>Support for vulnerable customers</b><br/>Consumers advocate support for vulnerable consumers, including through all elements of a transition.</p>   | <p>We will work with stakeholders to understand and consider the needs of vulnerable customers and what we can do to help as we develop our transition roadmap.</p>  |
| <p><b>Communication and ongoing involvement</b><br/>Consumers want to be kept informed and involved at all stages of the research, planning and transition towards a net zero emissions future.</p> | <p>Our consumer engagement program to date and this draft plan are part of our mission to communicate with and involve our consumers.</p> <p>We will continue to keep consumers informed and involved throughout the 2021-26 period and as we develop our roadmap to 2045.</p> |

## Gas and energy affordability for low-income households

A key concern for ACTCOSS is to ensure that GN21 is in the long-term interest of low-income and other at-risk households with respect to price, quality, safety, reliability and security of supply of gas (and energy more broadly).

ACT households have relatively high levels of electricity and gas usage.<sup>15</sup> Alongside Victoria, ACT households have the highest gas bills due to having relatively high rates of gas connections and a colder climate.<sup>16</sup> While low-income households in the ACT spend less on gas than average-income households, gas bills account for a greater proportion of their disposable household income. In 2019, low-income ACT households on standing and market gas offers spent 4.9% and 4.2% of their income on gas, compared to 2.6% and 2.3% for average-income households.<sup>17</sup> It has been estimated that dual-fuel households tend to spend 25-30% more on energy than all-electric households.<sup>18</sup> The combined cost of electricity and gas in low-income, dual-fuel households increases the risk of energy stress, hardship, debt, and disconnection.

ACTCOSS has recently recommended to the ACT Government that, during 2020-25, it fund:

15 AER, *Affordability in retail energy markets 2019*, AER, Melbourne, September 2019, viewed at, <<https://www.aer.gov.au/retail-markets/performance-reporting/affordability-in-retail-energy-markets-september-2019>>.

16 *ibid*, p. 16.

17 *ibid*, pp. 17-18.

18 A Nance, *Relative energy poverty in Australia*, A research report for consumer advocates and policy makers funded by the Consumer Advocacy Panel (Project No. 565), st.kitts.associates, Adelaide, 2013, p. 20, viewed at, <[https://www.sacoss.org.au/sites/default/files/public/documents/Reports/131120\\_Relative\\_Energy\\_Poverty\\_in\\_Australia%20Report.pdf](https://www.sacoss.org.au/sites/default/files/public/documents/Reports/131120_Relative_Energy_Poverty_in_Australia%20Report.pdf)>.

- A comprehensive analysis of the feasibility, timeframe and lowest cost pathway to adoption of hydrogen in existing housing and new construction
- Independent research on the cost relativities of growing the electricity grid versus maintaining and growing gas infrastructure.<sup>19</sup>

While we await this evidence, ACTCOSS welcomes measures to support low-income households – including public housing tenants – to transition from gas to electric where feasible and in consumers’ long-term interests. Based on our current understanding, transitioning low-income households from gas to all-electric appears to be in their long-term interests based on:

- Rising gas prices
- Additional supply charge cost for dual-fuel households
- Improved efficiency and effectiveness of electric household appliances and long-term impact on energy affordability
- 100% renewable electricity in the ACT
- Risk of low-income households being stranded on the gas network and being faced with significantly higher gas prices in the future
- Need to replace appliances and some distribution assets (e.g. valves and meters) if transitioning to hydrogen
- Risk of increased consumer bills with hydrogen.<sup>20,21,22,23,24</sup>

Low-income, dual-fuel households in existing homes, including private renters, face bigger barriers to transitioning from gas to all-electric. These households face what have been referred to as a ‘poverty premium’, where their inability to afford the upfront costs of switching appliances prevents them from accessing long-term reductions in the cost of energy. In managing the transition, it will be particularly important to support these consumers, who remain connected to gas because of inability to switch, and who will be the most affected by the consequences of any changes. Private renters are also faced with an additional barrier in the form of a ‘split incentive’, where energy efficiency improvements represent a cost to the lessor, but a saving to the tenant.

There are also likely to be a number of low-income households that would prefer to continue to use gas and/or their existing gas appliances. This is likely to include older people and people from culturally and linguistically diverse

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19 ACTCOSS, *Submission: Response to the ACT Sustainable Energy Policy 2020-25 Discussion Paper*, op. cit, p. 25.

20 ACTCOSS, *ACT cost of living report 2019*, ACTCOSS, May 2019, viewed at, <<https://www.actcoss.org.au/publications/advocacy-publications/act-cost-living-report-2019>>.

21 ACTCOSS, *GN21 energy consumer advocacy workshop outcomes report*, op. cit.

22 ATA, 2014 & 2018, op. cit.

23 D Daly, M Tibbs, T Harada, G Waitt & P Cooper, *Guide to Implementing Low Carbon Retrofits for Social Housing*, Low Carbon Living CRC, Sydney, 2019, viewed at, <<http://www.lowcarbonlivingcrc.com.au/resources/crc-publications/guide-implementing-low-carbon-retrofits-social-housing>>.

24 Renew, *Hydrogen: help or hype?* Discussion paper, Renew, Melbourne, 2019, viewed at, <<https://renew.org.au/wp-content/uploads/2019/06/HydrogenHelpOrHype02d.pdf>>.

backgrounds. It will be important to ensure that there are measures to support low-income households with a strong preference to remain on gas to do so affordably, or otherwise providing appropriate support to transition to electric appliances.

## Depreciation

We would welcome your views on our proposed approach to calculating depreciation.

As noted above, the GN21 Draft Plan is based on the assumption that Evoenergy 'will need to accelerate depreciation for new capital expenditure by adjusting the asset lives of new investment'. Evoenergy's proposed approach to calculating depreciation is outlined as follows:

In this environment of uncertainty, we consider it prudent to shorten the useful lives of some new, long-lived assets for calculating regulatory depreciation to reflect the likelihood that they may become obsolete before the end of their engineering lives. We have in this way shortened the lives of three asset groups for new investment. Specifically we have:

- reduced the asset lives for new investment in high pressure mains from 80 years to 50 years;
- reduced the asset lives for new investment in medium pressure mains from 50 to 30 years; and
- reduced the asset lives for new investment in medium pressure services from 50 to 30 years.

The impact of shortening asset lives on the revenue requirement for the 2021–26 period is minimal (\$0.7 million).<sup>25</sup>

ACTCOSS recommends that Evoenergy undertake an additional 'deep dive' with stakeholders on the issue of depreciation to inform its proposal to the AER. We expect that the AER will want to see evidence of consumer support for Evoenergy's proposed approach. Given the technical nature of this issue, it would be useful to provide consumer advocates with the opportunity to obtain independent expert advice on this in order to determine whether to support the proposed approach to calculating depreciation.

In order for us to support Evoenergy's approach, we would need to be confident that this approach ensures the equitable distribution of financial risks so that those exposed to risks to have the ability and incentive to manage them.<sup>26</sup> A critical question is who should pay – consumers (current or future), shareholders, Evoenergy, or the ACT Government. Our view is that it is not

<sup>25</sup> Evoenergy, *Evoenergy gas network 2021 draft plan*, op. cit., p. 41.

<sup>26</sup> ACTCOSS, *Submission: Response to the ACT Sustainable Energy Policy 2020-25 Discussion Paper*, op. cit.

reasonable to expect consumers to bear the full risk of Evoenergy's gas assets becoming stranded due to the perceived climate change mitigation risks.

Our primary concern is that low-income gas consumers who are unable to afford to transition from gas are at significant risk of being stuck on the gas network. Those customers remaining on the gas network would face even higher gas costs as they are spread over a smaller customer base. One resource that we have found useful in relation to this is a recent report on the risk of stranded gas assets in California (see extract in text box below).

We note that Evoenergy has supported the following Citizens' Jury recommendation in principle:

Recommendation 5: Evoenergy, in consultation with relevant parties (including Government, retailers and consumers), to develop consumer-centred policy to protect consumers from unexpected transition issues; consumers being stranded if critical mass exodus occurs. The purpose of this recommendation is to give consumers certainty.<sup>27</sup>

It would be useful if Evoenergy could demonstrate how the proposed approach to depreciation would be consumer-centred in relation to the distribution of risk.

In response to questions raised as part of the Deep Dive Part A workshop, Evoenergy stated that its 'ambition as a business is that in time the network will distribute renewable gas'.<sup>28</sup> While we agree with Evoenergy that GN21 is taking place amidst considerable uncertainty, there is potentially a tension between its stated ambition and the proposed approach to depreciation if this approach includes the accelerated depreciation of assets that would remain useful to distribute renewable gas.

We are aware that the issue of accelerated depreciation has been a contentious one in the Jemena Gas Networks (NSW) - Access arrangement 2020-25. This issue seems to fall within the application of the national energy objectives in relation to climate change mitigation risks as outlined by the Australian Energy Market Commission (AEMC):

[The national energy objectives] do not specifically require the Commission to have regard to the long-term interests of consumers with respect to climate change or the environment... However, in order to make decisions that meet the national energy objectives, the Commission considers whether its decisions are robust to any impacts on price, quality, safety, reliability and security of supply of energy or energy services, if these matters are impacted by mitigation or adaptation risk that manifests due to the issue of climate change.<sup>29</sup>

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27 Evoenergy, *Evoenergy 2019 Citizens' jury: Evoenergy gas network 2021–26 review response to recommendations*, Evoenergy, Canberra, 2020, p. 11, viewed at, <<https://www.evoenergy.com.au/about-us/about-our-network/gas-five-year-plan/gas-network-consultation-program>>.

28 Evoenergy, *Part A Deep Dive Q and A*, Evoenergy, Canberra, 2020, p. 1.

29 AEMC, *Applying the energy market objectives*, AEMC, Sydney, 8 July 2019, pp. 10-11, viewed at, <[https://www.aemc.gov.au/sites/default/files/2019-07/Applying%20the%20energy%20market%20objectives\\_4.pdf](https://www.aemc.gov.au/sites/default/files/2019-07/Applying%20the%20energy%20market%20objectives_4.pdf)>.



We would encourage the AEMC and the AER to consider addressing this issue at a policy-level for gas networks in general.

**Extract from ‘Managing the transition: proactive solutions for stranded gas asset risk in California’<sup>30</sup>**

**Equitable Distribution of Financial Risks**

As discussed in more detail below, there are critical tensions between different customer classifications that need to be considered in working to manage the risk and impact of stranded value during this transition. Importantly, key questions will need to be addressed regarding the balance between future and current customers, electric and gas customers, high income and low income customers, just to name a few. In the near term, it is highly possible that wealthier customers are more likely to be able to afford to disconnect from the gas system and to electrify its buildings, leaving the remaining customers with a lower ability to pay to pick up the remaining costs. As customers leave the system, the state may want to consider how the cost of the “exit” should be addressed and accommodated for, and on what time horizon.

**Equity**

With gas system operation and maintenance costs spread out across a smaller customer base, there is a significant risk that certain customer groups, particularly those low income customer groups, will be left footing the bill for an oversized gas system that other parties have now departed. Such groups may be stuck with rising gas rates (departing customers and recovery costs) and an inability to electrify (high capital costs, etc.). Further, there are also concerns over intergenerational equity as future ratepayers could be saddled with the costs of investments in the gas system that are no longer used and useful and they receive no benefit from.

**High Income vs. Low-Income Customers**

With high up front capital costs associated with some electrification strategies, some investments will likely be implemented by higher income communities and customers. As a result, with a dwindling customer base in the gas system, large scale electrification may leave some lower income customers vulnerable to rising gas rates and no avenue to escape. As a result, a tension based on income and personal resources available to perform fuel substitution may increase over time, necessitating changes and expansions to public purpose programs to help vulnerable customers.

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<sup>30</sup> Environmental Defense Fund, *Managing the transition: proactive solutions for stranded gas asset risk in California*, EDF, New York, 2019, pp. 20, 21 & 23, viewed at, [https://www.edf.org/sites/default/files/documents/Managing%20the%20Transition\\_1.pdf](https://www.edf.org/sites/default/files/documents/Managing%20the%20Transition_1.pdf).

## Bill Impacts

Evoenergy's GN21 Draft Plan indicates a relatively flat price path for the distribution network with minimal bill impacts for residential customers. The only real annual change to residential consumers bills is expected to be a 0.4% decrease in 2021-22, with no change in following years to 2025-26.

We understand that a decrease in the first year is typical (and potentially preferred by consumers), but the level of decrease in the draft plan appears smaller than was expected.

We would welcome further explanation of why the forecast of a minimal impact on residential customers' bills under Evoenergy's proposed approach.

## Capital Expenditure Sharing Scheme

What are your views on our proposal to adopt a CESS? What factors should we take into account in applying the scheme to the ACT?

We are uncertain about the value of Evoenergy adopting a Capital Expenditure Sharing Scheme (CESS) under GN21. Under the proposed CESS any underspends or overspends on capital expenditure would be shared between customers (70 per cent) and the network business (30 per cent). It is unclear whether customers want or would benefit from the proposed CESS. Evoenergy's Deep Dive Part A workshop sought feedback from stakeholders on the most appropriate performance measures and weightings for the CESS. This skipped the key step of seeking feedback from stakeholders on whether a CESS should be adopted.

We recommend Evoenergy seek consumer feedback on whether a CESS should be adopted. Our key concern is whether adopting a CESS would be in the long-term interests of consumers. The value of adopting a CESS seems to be questionable within the GN21 Draft Plan context of limited market expansion and a relatively low level of capital expenditure. The CESS seems even further restricted given Evoenergy's proposal that 'any capital expenditure associated with new connections should be excluded from the operation of the [CESS] scheme'.<sup>31</sup>

We do see value in there being a strong incentive for Evoenergy to maintain high performance standards, and therefore minimise impacts of outages for affected customers. We would be interested in assessing the value of adopting a CESS alongside the existing Efficiency Carryover Mechanism (ECM) for operational costs.

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<sup>31</sup> Evoenergy, *Evoenergy gas network 2021 draft plan*, op. cit., p. 42.

If a CESS is to be adopted it is essential that:

- The metrics represent decisions the Evoenergy has under its control
- The metrics/weightings reflect the importance to or impact on customers (customer-centred)
- The targets are set at levels that truly represent achievements beyond business as usual such that the scheme does not simply represent a 'easy wins' or 'low-hanging fruit' for Evoenergy
- The scheme is designed such that it is generally symmetric – i.e. the quantum of incentive payment and the probability of meeting the target is such that Evoenergy has a close to equal likelihood of earning a positive payment as a negative one.

As discussed at Evoenergy's Deep Dive Part B teleconference, it would be useful to provide stakeholders with further information about performance measures, baselines, and benchmarks.

## Tariffs

We are seeking your views on our proposed approach to simplifying tariffs.

We support Evoenergy simplifying tariffs by abolishing unused tariffs under GN21.

The GN21 Draft Plan notes that:

Evoenergy has declining usage rates, meaning the price per unit falls the more gas is used. This helps encourage utilisation of the gas network, and minimise the bill impacts of higher usage during peak times of the year.<sup>32</sup>

We would be interested in analysis of declining usage rates impacts in relation to:

- Equity outcomes – Evoenergy presented data to the Energy Consumer Reference Council (ECRC) meeting on 31 October 2019 that indicated that while low-income gas consumers have lower gas usage per quarter, the impact of the declining usage rate is not likely to be inequitable. There remains a concern that the declining usage rate is not progressive and may not equally benefit low-income households who have lower gas usage per quarter. We would value more detailed analysis of the declining usage rate in relation to equitable outcomes for low-income households.
- Sustainability outcomes – the declining usage rate appears to work against ACT Government policy objectives in relation to reducing

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<sup>32</sup> Evoenergy, *Evoenergy gas network 2021 draft plan*, op. cit., p. 44.

greenhouse gas emissions from natural gas consumption. A tariff structure where the unit price of gas is reduced as consumption increases beyond appears to incentivise higher consumption levels and hence emissions.

## Capital Expenditure

Do you have any feedback about our proposed capex program? Does our approach seem reasonable? Are there any specific elements you would like to know more about?

We support Evoenergy's approach to capital expenditure based on the assumption of no expansion of the gas network into new suburbs in the ACT. We agree that given the current degree of uncertainty regarding the future of the gas network, it is in the best interest of customers to limit the amount of capital investment added to the asset base.

We would welcome more detailed information on the two largest components of Evoenergy's capital expenditure:

- Market expansion (\$34.8m)
- Meter renewal (\$21.7m)

In relation to market expansion we understand that,

Of this [\$35m], 31% is for expansion in NSW. The remainder is for expansion in ACT and does not include expansion into greenfield sites, only brownfields and infill areas.<sup>33</sup>

We have concerns about the impact on the long-term interests of gas consumers – especially low-income dual-fuel households – in the Queanbeyan-Palerang Region if there is significant expansion of the network there while the customer base and/or gas usage declines significantly in the ACT. We thank Evoenergy for outlining the NSW-specific drivers of demand for gas in that region in response to these concerns.<sup>34</sup>

We are also concerned that market expansion in existing suburbs in the ACT and Queanbeyan-Palerang Region might lock multi-unit developments into the gas network, or otherwise make retrofit to all-electric more challenging for residents.

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<sup>33</sup> Evoenergy, *Part A Deep Dive Q and A*, Evoenergy, op. cit., p. 1.

<sup>34</sup> *ibid.*

## Operating Costs

We are interested in your views on our proposed operating costs. Does our approach seem reasonable? Are there any specific elements you would like to know more about?

We believe Evoenergy's approach to proposed operating costs is reasonable given the circumstances under which this plan is being developed. We welcome the offsetting of operating cost increases with estimated productivity gains of 0.74% per year totalling over \$2.5m.

We do have some concern in relation to marketing costs in relation to subsidising gas appliances as outlined below.

### Marketing costs: Evoenergy's gas rewards program

In response to questions from Deep Dive Part A, Evoenergy advised that,

Marketing expenditure in 2019/20 (the year used as a base for the forecast) is expected to be \$1.1 million. Existing gas consumers who choose to continue to use gas benefit from replacing an existing gas appliance with a new 5-star or 6-star energy efficient system. Doing so lowers the cost of their energy bill and reduces their energy use, which has a positive environmental impact. Evoenergy's gas rewards marketing program is designed to target existing and continuing gas customers to ensure they're aware of the benefits of upgrading (and incentivise them to upgrade) to a more energy efficient gas appliance.<sup>35</sup>

We welcome initiatives supporting low-income dual-fuel households to purchase more energy efficient gas appliances – and long-term gas bill savings – where they are not able or willing to transition to electric appliances. Our concern is that this does not address the underlying issue of whether switching to an electric appliance would be preferable and more beneficial to the consumer.

ACTCOSS encourages Evoenergy to address the following questions:

- How is Evoenergy testing to ensure the appliances purchased via the gas rewards marketing program are energy efficient?
- How is Evoenergy testing to ensure the appliance(s) chosen is economically efficient for the purchaser based on their housing situation, especially noting the potential for an electric alternative?
- How is the cost being recovered for these incentive payments?

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<sup>35</sup> *ibid.*

- Which consumers are receiving these gas rewards payments – are low-income/vulnerable households with low-efficiency appliances making use of these where it is economically efficient for them to do so?

## Customer Number and Volume Forecasts

We are interested in your views on our proposed customer number and volume forecasts. Does our approach seem reasonable in light of the ACT Government's Climate Change Strategy and commitment to explore alternatives to natural gas?

Evoenergy's proposed customer number and volume forecasts seem reasonable from a business perspective, but do not align with ACT Government's indicative forecasts in the *ACT Climate Change Strategy 2019-25* and the legislated greenhouse gas emissions reduction targets.

The ACT Government has legislated to reduce emissions (from 1990 levels) by:

- 40% by 2020
- 50–60% by 2025
- 65–75% by 2030
- 90–95% by 2040
- 100% (net zero emissions) by 2045.

These staged targets provide useful context for GN21, indicating that a further 10-20% reduction in greenhouse gas emissions is to be achieved by 2025. This will require a focus on gas and transport given the achievement of 100% renewable electricity in late 2019.

While only indicative, the ACT Government has undertaken modelling that suggests that to achieve these targets there would need to be 'around 60,000 existing households not connected to gas by 2025, increasing to 90,000 in 2030 and all houses by 2045'.<sup>36</sup>

The GN21 Draft Plan forecasts an increase of around 14,000 volume (residential and small business) customers – growing from around 150,000 at present to 164,000 by 2025-26.

We would welcome Evoenergy's views on how GN21 fits within the context of the legislated target for a 50-60% reduction in greenhouse gas emissions (from 1990 levels) by 2025.

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<sup>36</sup> ACT Government, *ACT Climate Change Strategy 2019-25*, op. cit., p. 39.

## **2020 ACT Election**

While there is currently bi-partisan support for achieving zero net greenhouse gas emissions in the ACT by 2045, a change of government at the October 2020 ACT Election could see a change in the shape of the Climate Change Strategy and Sustainable Energy Policy. This might include a change in the way the issue of gas is approached by the next ACT Government.

## **COVID-19 impacts**

We appreciate that there may be economic impacts resulting from COVID-19 that could impact on Evoenergy's planning for the gas network during GN21.